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Message Text

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73
ACTION SS-15

INFO OCT-01 ARA-06 ISO-00 EB-07 L-03 CIAE-00 INR-07

NSAE-00 NSC-05 TRSE-00 SSO-00 NSCE-00 INRE-00 /044 W
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TO SECSTATE WASHDC 1818 NIACT IMMEDIATE

C O N F I D E N T I A L LIMA 8400

FOR UNDER SECRETARY MAW

EO 11652: GDS

TAGS: BDIS, EINV, EIND, EMIN, PFOR, PE

SUBJECT: MARCONA - FINAL ROUND (COMMISSION MEETING SEPT 15)

1. TODAY'S COMMISSION MEETING LASTED THREE HOURS AND LED TO FULL REVIEW OF OUTSTANDING PROBLEMS. AGREEMENT WAS REACHED BETWEEN BOTH SIDES (A) THAT APRIL AGREEMENT IN PRINCIPLE REMAINS BASIS OF NEGOTIATIONS, AND (B) THAT WHILE COMPONENTS OF SETTLEMENT PACKAGE MAY BE SUBJECT TO SOME VARIATION, THE PACKAGE AS A WHOLE WILL REMAIN OF APPROXIMATE EQUIVALENT VALUE.

2. THE SESSION REVIEWED RESPECTIVE POSITIONS ON THE METHOD OF CASH PAYMENT, ON THE AMOUNT OF CASH PAYMENT, AND THE DIFFERENCES OVER SHIPPING. THE PERUVIAN POSITION WAS ESSENTIALLY UNCHANGED, WITH SOME PREDISPOSITION TO REPLACE CASH WITH PELLETS.

3. THE CHIEF SHIFT IN PERUVIAN POSITION APPEARS TO BE ONE OF SEEKING TO SIMPLIFY SHIPPING AND SALES ELEMENTS SO AS TO PRODUCE PUBLICLY IDENTIFIABLE AMOUNTS OF COMPENSATION THAT CAN BE JUSTIFIED AS DEFERRED PAYMENT. THE SHIPPING CONTRACT, FOR EXAMPLE, WOULD DISAPPEAR AND WOULD BE REPLACED BY A FORMULA BY WHICH
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HIERRO-PERU WOULD PAY MARCONA $1 (ONE DOLLAR) FOR EVERY TON EXPORTED TO "TRADITIONAL MARKETS" UP TO A SPECIFIED SUM (THE PERUVIANS SUSTAINED $9 MILLION; WE SUSTAINED $12 MILLION).

4. THE PATTERN IS CONSIDERABLY MORE COMPLICATED FOR THE SALES CONTRACT. THE PERUVIANS EXPRESSED CONCERN THAT RAPIDLY RISING ORE PRICES IN THE U.S. WOULD, UNDER TERMS OF THE APRIL AGREEMENT, PROVIDE MARCONA A WINDFALL PROFIT IN EXCESS OF $18 MILLION WHICH THE PERUVIANS ENVISAGED. THEY EXPRESSED THE VIEW THAT SUCH A POSSIBILITY WOULD BE POLITICALLY AND ECONOMICALLY UNACCEPTABLE. RUBINA INDICATED THAT ONE WAY TO RESOLVE THIS MIGHT BE TO INCREASE THE $18 AND $20 PRICES AGREED UPON IN APRIL. WE OBJECTED STRONGLY AND MOST GOP COMMISSION MEMBERS SEEMED TO INCLINE RATHER TO BROUSSET'S ALTERNATIVE FORMULA OF FINDING A WAY TO FIX MARCONA'S COMPENSATION AT $6 PER TON, PERHAPS BY HAVING HIERRO-PERU SHARE THE U.S. MARKET AND PAY MARCONA $6 PER TON OF PELLETS SOLD BY HIERRO-PERU.

5. PERUVIANS EMPHASIZED THAT THEY WANT RAPID SETTLEMENT AND THAT THEY UNDERSTAND NECESSITY OF CONCLUDING IT DURING OUR VISIT HERE. THEY ADDED THAT SOME OF THE CONCERNS THEY EXPRESSED TO US ON ORE SALES WERE PERSONAL, WITHOUT FORMAL APPROVAL OF MINISTERS. WE ARE CONSULTING WITH MARCONA TONIGHT AND HAVE SCHEDULED SECOND MEETING WITH GOP AT 10:30 A.M. TOMORROW (SEPT 16).

6. YOUR PRESENCE NOW CLEARLY ESSENTIAL. PLEASE ADVISE ETA.

7. OPS CENTER PLEASE COMMUNICATE TO MR. MAW AS SOON AS POSSIBLE.

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*** Current Handling Restrictions *** n/a
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